

Financial Statements
Gratiot County Community
Mental Health Services

Alma, Michigan

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gratiot County Community Mental Health	County Gratiot
Audit Date 9/30/05	Opinion Date 1/10/06	Date Accountant Report Submitted to State: 3/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

MAR 29 2006

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

LOCAL AUDIT & FINANCE DIV.

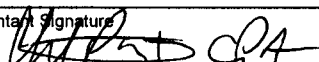
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue	City Alma	State MI	ZIP 48801
Accountant Signature 		Date 3/28/06	

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September 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Gratiot County Community Mental Health Services
Alma, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Gratiot County Community Mental Health Services (the Board), as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Board as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2006 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 10, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

The management of Gratiot County Community Mental Health Services Program (GCCMHSP) presents the following overview and analysis of the financial activities during the past year. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

Basic Financial Statements:

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information) which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information) which shows revenues and expenses and the change in net assets for the year.

Fund financial statements offer a series of statements that focus on major governmental funds. For GCCMHSP, the major governmental fund is the General fund. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements. Fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Summary of Net Assets:

The following summarizes the assets, liabilities and net assets on a government-wide basis as of September 30, 2005 and 2004.

Summary of Net Assets
As of September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	2,934,665	2,908,818
Restricted assets	152,654	141,308
Capital assets	<u>1,406,665</u>	<u>1,446,185</u>
Total Assets	4,493,984	4,496,311
Liabilities		
Current liabilities	1,014,849	954,614
Noncurrent liabilities:		
Long term debt	711,479	781,855
Compensated absences	<u>170,421</u>	<u>161,207</u>
Total Liabilities	1,896,749	1,897,676
Net Assets		
Investment in capital assets, net of related debt	624,810	600,744
Reserved for risk management	27,140	27,005
Unrestricted	<u>1,945,285</u>	<u>1,970,886</u>
Total Net Assets	2,597,235	2,598,635

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Current assets consist of cash and cash equivalents, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue and the current portion of notes payable.

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position. The 2005 current financial position is \$1,919,816, a decrease of \$34,388 from the 2004 current financial position.

Restricted assets consist of cash, cash equivalents and accrued interest receivable. These assets are restricted for payment of compensated absences, and restricted for risk management.

The assets restricted for risk management are related to the risk obligations for the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$27,140.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value, net of the accumulated depreciation.

Noncurrent liabilities consist of the liability for compensated absences, which includes vested vacation and sick pay obligations, as well as the long-term portion of notes payable used to acquire and improve buildings.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for risk management.

Unrestricted net assets at the end of 2005 was \$1,945,285, a decrease of \$25,601 from 2004. Unrestricted net assets were 43% of total assets, almost steady from the prior year.

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Summary of Activities:

The following summarizes the revenues, expenses and excess of revenues over expenses on a government-wide basis for the years ended September 30, 2005 and 2004.

Summary of Activities
As of September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Department of Community Health Contract	1,299,040	1,294,581
Charges for services	7,719,105	7,806,249
Grants and earned contracts	296,654	300,130
County appropriation	200,000	200,000
Interest income and rents	49,391	51,967
Other local income	<u>145,740</u>	<u>113,569</u>
Total Revenues	9,709,930	9,766,496
Expenses		
Personnel expense	4,282,493	4,224,865
Operating expense	5,258,709	5,448,032
Interest on long term debt	53,271	50,496
Depreciation	<u>116,857</u>	<u>187,118</u>
Total Expenses	9,711,330	9,910,511
Excess of Revenues over Expenses	(1,400)	(144,015)

Excess of expenses over revenues from activities for the current year were \$1,400. This is a decrease of loss of \$142,615 from the prior year.

Total revenues for the year were \$9,709,930, a decrease of \$56,566 from the prior year.

Charges for services include Medicaid based on a contract with CEI for \$7,609,301, other Medicaid funding of \$59,339, client and third party pay of \$48,888, and other charges for services of \$1,577.

Grants and earned contracts include revenue sources for which the use of funds is restricted to a specific purpose. These represent 3% of total revenue and have decreased \$3,476 from the prior year.

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

County appropriation revenue, interest income, rents, and other local income are available to meet state matching fund requirements. County appropriation revenue was unchanged. Interest income, rents and other local income constitute 2% of revenue and have increased \$29,595 from the prior year.

Total expenses for the year were \$9,711,330, a decrease of \$199,181 from the prior year. Personnel expense is 44% of total expense and has increased \$57,628. Operating expense is 54% of total expense and has decreased \$189,323 from the prior year.

Notes to Financial Statements:

The notes to the financial statements, which immediately follow the financial statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the financial statements.

Under the contractual requirements issued by the Michigan Department of Community Mental Health (MDCH), GCCMHSP began in FY 2002-2003 receiving sub-capitation Medicaid funding directly from Clinton Eaton Ingham (CEI) Community Mental Health. CEI Community Mental Health is the regional Prepaid Inpatient Health Plan (PIHP) responsible for administering mental health and substance abuse services for an eight county affiliation consisting of Clinton, Eaton, Ingham, Ionia, Gratiot, Newaygo, Manistee and Benzie Counties.

The affiliation, known as the Community Mental Health Affiliation of Mid-Michigan (CMHAMM), operates under an agreement pursuant to the Intergovernmental Transfer of Functions and Responsibilities Act. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

The sub-capitated arrangement that GCCMHSP has with CEI requires CEI to make a monthly payment to each CMH in the affiliation for Medicaid recipients living in their respective counties. This sub-capitated arrangement allows GCCMHSP to provide needed mental health services with great flexibility, as long as GCCMHSP complies with Medicaid standards and requirements. The state's Medicaid Mental Health and Substance Abuse Waiver renewal in late 2003 reinforced the requirement on CEI to ensure that Medicaid services are available, accessible, and medically necessary to meet the mental health and developmental disability needs of all of the Medicaid enrollees across the eight county region. This was reinforced through the requirement that the MDCH pay CEI Community Mental Health a single set of Medicaid rates for all of the Medicaid recipients living in the eight counties for which CEI is responsible.

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Financial Comparisons:

The fiscal year 2005 final budget adopted by the governing board was \$9,433,630 of Revenues and \$9,313,485 of Expenses with an addition to fund balance of \$120,145. The Actual compared to Budget is presented below.

	Actual	Budget	Variance
Revenues	\$9,709,795	\$9,433,630	\$276,165
Expenses	\$9,726,182	\$9,313,485	(\$412,697)

A comparison of fiscal year 2005 to fiscal year 2004 is presented below.

	2005	2004	Variance
Revenue	\$9,709,795	\$9,766,177	(\$56,382)
Expenses	\$9,726,182	\$9,633,905	\$92,277
Revenues over/(under) Expenses	(\$16,387)	\$132,272	(\$148,659)

Gratiot County Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Future Outlook:

For the 2004 fiscal year, the Department of Community Mental Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2003 fiscal year. This two-year 'hold harmless' period ended September 30, 2005.

A new funding formula for the affiliation was implemented October 1, 2005, which involved a chart review analysis to determine Board specific severity factors. Regional rates are now multiplied by the severity factor for each population and age group. It is expected that Gratiot County Community Mental Health Medicaid funding will be reduced 4.33% and other funding will remain relatively stable. In anticipation of the funding changes for the 2006 fiscal year, programs and services are continually being reviewed.

The State of Michigan continues to struggle to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.

Management expects State revenues to be flat at best. Support and service demand is expected to increase together with inflationary cost pressures. While the financial position of the Board is currently healthy, the economic outlook will continue to put significant pressure on our ability to serve and support our constituents.

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Gratiot County Community Mental Health Services
Statement of Net Assets
September 30, 2005 and 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$2,683,275	\$2,606,297
Accounts receivable	1,517	2,267
Due from other governmental units	153,014	184,174
Prepaid expenses	96,859	116,080
Total current assets	2,934,665	2,908,818
Noncurrent assets		
Restricted cash	152,654	141,308
Capital assets - depreciable, net	1,230,965	1,280,485
Capital assets - land	175,700	165,700
Total noncurrent assets	1,559,319	1,587,493
Total assets	4,493,984	4,496,311
Liabilities		
Current liabilities		
Accounts payable	626,911	614,158
Accrued wages and other payroll liabilities	64,561	148,623
Due to other governmental units	193,100	75,738
Deferred revenue	59,901	52,509
Current portion of long term debt	70,376	63,586
Total current liabilities	1,014,849	954,614
Noncurrent liabilities		
Compensated absences	170,421	161,207
Notes payable	711,479	781,855
Total noncurrent liabilities	881,900	943,062
Total liabilities	1,896,749	1,897,676
Net Assets		
Invested in capital assets, net of related debt	624,810	600,744
Reserved for risk management	27,140	27,005
Unrestricted	1,945,285	1,970,886
Total net assets	\$2,597,235	\$2,598,635

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services

Statement of Activities

For the years ended September 30, 2005, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$9,711,330</u>	<u>\$7,719,105</u>	<u>\$1,967,014</u>	(\$25,211)	(\$163,433)
General revenues					
Unrestricted investment earnings				23,676	19,099
Restricted investment earnings				135	319
Total general revenues and contributions				<u>23,811</u>	<u>19,418</u>
Change in net assets				(1,400)	(144,015)
Net assets - beginning of year				<u>2,598,635</u>	<u>2,742,650</u>
Net assets - end of year				<u>\$2,597,235</u>	<u>\$2,598,635</u>

The Notes to the Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Gratiot County Community Mental Health Services
Balance Sheet
Governmental Funds
September 30, 2005 and 2004

	General Fund	
	2005	2004
Assets		
Cash and cash equivalents	\$2,656,135	\$2,579,292
Accounts receivable	1,517	2,267
Due from other governmental units	153,014	184,174
Restricted cash	152,654	141,308
Prepaid expenses	96,859	116,080
Total assets	<u>\$3,060,179</u>	<u>\$3,023,121</u>
Liabilities		
Accounts payable	\$626,911	\$614,158
Accrued wages and other payroll liabilities	64,561	148,623
Due to other governmental units	193,100	75,738
Deferred revenue	59,901	52,509
Total liabilities	<u>944,473</u>	<u>891,028</u>
Fund balances		
Reserved for prepaid expenses	96,859	116,080
Unreserved	<u>2,018,847</u>	<u>2,016,013</u>
Total fund balances	<u>2,115,706</u>	<u>2,132,093</u>
Total liabilities and fund balances	<u>\$3,060,179</u>	<u>\$3,023,121</u>

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
To Net Assets of Governmental Activities on the Statement of Net Assets
For the year ended September 30, 2005

Total fund balance - governmental funds	\$2,115,706
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	2,434,593
Deduct: accumulated depreciation	(1,027,928)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	27,140
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Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Deduct: Notes payable	(781,855)
Deduct: Compensated absences	<u>(170,421)</u>

Net assets of governmental activities	<u><u>\$2,597,235</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2005 and 2004

Revenues	General Fund	
	2005	2004
State Grants		
Department of Community Health Contract	\$1,299,040	\$1,294,581
Other	6,859	6,217
Total state grants	<u>1,305,899</u>	<u>1,300,798</u>
Federal grants		
Federal block grants	117,785	126,335
OBRA grant	70,198	62,492
Total federal grants	<u>187,983</u>	<u>188,827</u>
Contributions - local units		
County appropriations	200,000	200,000
Other - FIA grants	108,671	111,303
Total contributions - local units	<u>308,671</u>	<u>311,303</u>
Charges for services		
Medicaid - CEI Contract	7,609,301	7,543,452
Medicaid - other	59,339	149,313
Client and third party pay	48,888	58,922
Other charges for services	1,577	54,562
Total charges for services	<u>7,719,105</u>	<u>7,806,249</u>
Interest and rents		
Interest	23,676	19,099
Rents	25,715	32,868
Total interest and rents	<u>49,391</u>	<u>51,967</u>
Other revenue		
United Way	11,710	12,503
Miscellaneous	127,036	94,530
Total other revenue	<u>138,746</u>	<u>107,033</u>
Total revenues	9,709,795	9,766,177

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the years ended September 30, 2005 and 2004

Expenditures	General Fund	
	2005	2004
Health & Welfare - Mental Health		
Personnel costs	\$4,282,493	\$4,224,865
Operating expenditures	5,188,511	5,285,453
Capital outlay	138,321	11,205
Debt service payments	116,857	112,382
Total expenditures	9,726,182	9,633,905
Revenues over (under) expenditures	(16,387)	132,272
Fund balance, beginning of year	2,132,093	1,999,821
Fund balance, end of year	\$2,115,706	\$2,132,093

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the year ended September 30, 2005

Net change in fund balances - total governmental funds	(\$16,387)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	138,321
Deduct: depreciation expense	(177,841)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	135
Fixed assets acquired by long term loans are shown as an expenditure and other financing source in the governmental funds. The other financing source must be removed from the statement of activities; principal payments are applied to the debt liability; interest expense is recognized as it accrues.	
Add: principal payments on long term debt	63,586
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(9,214)</u>
Change in net assets of governmental activities	<u><u>(\$1,400)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Statement of Net Assets
Proprietary Funds
September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	<u>\$27,140</u>	<u>\$27,005</u>
Liabilities	-	-
Net Assets		
Restricted	<u>\$27,140</u>	<u>\$27,005</u>

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the years ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Non-operating revenues (expense)		
Interest income	\$135	\$319
Operating transfers		
Transfers to affiliates	<u>-</u>	<u>(151,216)</u>
Change in net assets	135	(150,897)
Net assets, beginning of year	<u>27,005</u>	<u>177,902</u>
Net assets, end of year	<u><u>\$27,140</u></u>	<u><u>\$27,005</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Statement of Cash Flows
Proprietary Funds
For the years ended September 30, 2005 and 2004

	<u>Internal Service Funds</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities	-	-
Cash flows from noncapital financial activities		
Transfers to affiliates	-	(\$151,216)
Cash flows from investing activities		
Proceeds from interest earnings	<u>\$135</u>	<u>319</u>
Net increase (decrease) in cash	135	(150,897)
Cash and cash equivalents, beginning of year	<u>27,005</u>	<u>177,902</u>
Cash and cash equivalents, end of year	<u><u>\$27,140</u></u>	<u><u>\$27,005</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Gratiot County Community Mental Health Services
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gratiot County Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board operates as a Community Mental Health Board under the provisions of Act 258 - Public Acts of 1974, as amended. The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Gratiot County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Gratiot County Community Mental Health Services
Notes to Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Board has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Gratiot County Community Mental Health Services
Notes to Financial Statements

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the Board to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Board's deposits are in accordance with statutory Authority.

Restricted Cash Equivalents

The Board has charged to the Department of Community Health the vested portion of compensated absences as of September 30. The Board holds a certificate of deposit for payment of the compensated absences liability, which is renewed on an annual basis.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health, the State of Michigan and Gratiot County.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Board are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings	15 – 25
Equipment	3 – 20
Vehicles	4

Gratiot County Community Mental Health Services
Notes to Financial Statements

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board. This liability is included in accounts payable and due to other governmental units.

Gratiot County Community Mental Health Services
Notes to Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Board incurred expenditures in excess of the amounts appropriated as shown on page 25 of this report as unfavorable variances.

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

	2005	2004
Petty cash	\$600	\$500
Cash deposits	1,755,998	1,692,186
Certificates of deposit	1,079,331	1,054,919
Totals	\$2,835,929	\$2,747,605

Gratiot County Community Mental Health Services
Notes to Financial Statements

Deposits with Financial Institutions

At September 30, 2005, the carrying amount of the Board's deposits was \$2,835,329, and the bank balance was \$3,209,964. Of the bank balance, \$300,000 was covered by federal depository insurance and \$2,909,964 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

A reconciliation of deposits as shown above follows:

	2005	2004
Cash and cash equivalents – current assets	\$2,682,675	\$2,605,797
Cash and cash equivalents – restricted assets	152,654	141,308
Totals	\$2,835,329	\$2,747,105

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2005	2004
State of Michigan – Medicaid	\$21,061	\$55,780
Department of Community Health – Various Grants	32,403	70,599
Gratiot FIA	23,260	10,083
Gratiot County	50,000	-
Other Governmental Units	26,290	47,712
Total	\$153,014	\$184,174

Gratiot County Community Mental Health Services
Notes to Financial Statements

Changes in Capital Assets

A summary of changes in capital assets is as follows:

Assets	Beginning Balance	Additions	Disposals	Ending Balance
Buildings / Land	\$1,339,513	\$131,366	-	\$1,470,879
Equipment	321,745	-	(\$7,279)	314,466
Vehicles	663,786	6,955	(21,493)	649,248
Sub-totals	2,325,044	138,321	(28,772)	2,434,593
Accumulated depreciation	(878,859)	(177,841)	28,772	(1,027,928)
Totals	\$1,446,185	(\$39,520)	\$-	\$1,406,665

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2005	2004
Department of Community Health – Inpatient Services	\$1,379	\$15,351
Department of Community Health – Cost Settlement	1,954	-
CEI Community Mental Health Authority	93,328	58,881
Other Community Mental Health Agencies	96,439	1,506
Totals	\$193,100	\$75,738

Deferred Revenue

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Long-Term Debt – Compensated Absences

Board policy allows full time employees to accumulate “paid time off” at various rates, depending on the employee’s length of service with the Board. Amounts accumulated up to a maximum of 45 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment, provided the employee has worked for the Board for at least one year. As of September 30, 2005 and 2004, this liability was \$170,421 and \$161,207, respectively.

Long-Term Debt – Building Loans

Building Loan – Wright Avenue

During the 2001 fiscal year, the Board entered into a contract with a local bank to purchase real estate. Payments are due monthly in the amount of \$4,475, including interest at the rate of 5.25% per annum.

Building Loan – Warwick Street

During the 2003 fiscal year, the Board entered into a contract with the County of Gratiot to purchase real estate. Payments are due annually equal to the debt service requirements the County must pay for the related bond issue. Principal payments vary from \$25,000 to \$50,000 per year, and interest rates are from 7.3% to 7.8% per year.

Building Loan – Miller Property

During the 2003 fiscal year, the Board entered into a contract with a local bank to purchase real estate. Payments are due monthly in the amount of \$843, including interest at the rate of 4.75% per annum.

The annual installments to pay principal and interest on obligations outstanding at September 30, 2005 are as follows, including total interest payments of \$115,170:

Year Ended September 30,	Amount
2006	\$113,740
2007	111,062
2008	569,618
2009	50,655
2010	51,950
2011-2015	-

Gratiot County Community Mental Health Services
Notes to Financial Statements

During the year, the following changes occurred in long-term debt:

	Beginning Balance	Additions	Reductions	Ending Balance
Compensated Absences	\$161,207	\$9,214	-	\$170,421
Building Loan – Wright Avenue	453,414	-	\$30,626	422,788
Building Loan – Warwick Street	240,000	-	30,000	210,000
Building Loan – Miller Property	152,027	-	2,960	149,067
Totals	\$1,006,648	\$9,214	\$63,586	\$952,276

Operating Leases

The Board has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the account groups.

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, 2005 are as follows:

Year Ended September 30,	Amount
2006	44,794
2007	29,494
2008	24,394
2009	24,394
2010	22,361
2011-2015	-

Gratiot County Community Mental Health Services
Notes to Financial Statements

Pension Plan

Plan Description

The Board allows certain employees to participate in the Gratiot County Community Mental Health Employee Alternative Retirement Plan (the Plan). This plan is a defined contribution money purchase pension plan and the Plan administrator is the Chief Financial Officer of the Board. Effective May 1, 2002, all employees of the Board are eligible to participate in the Plan, which provides retirement and death benefits to members and their beneficiaries.

Funding Policy

Employees contribute a mandatory 6.2% of their compensation to this plan. The Employer will contribute a Money Purchase contribution of 7.5% of compensation. Additionally, the employees may be entitled to share in a discretionary profit sharing contribution made by the employer. For the 2005 and 2004 year, this discretionary contribution totaled 6.2% and 6.2% of compensation, respectively.

For the September 30, 2005 and 2004 fiscal year, employer contributions to the plan totaled \$395,687 and \$398,714, respectively. The total payroll for the year ending September 30, 2005 and 2004 was \$3,281,263 and \$3,312,842, respectively.

Employee contributions and the employer discretionary profit sharing contributions vest 100% immediately. The vesting schedule for the employer money purchase contribution is as follows: 0% for the first 2 years of service, 50% after 3 years of service, 75% after 4 years of service, and 100% after 5 years of service.

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Gratiot County Community Mental Health Services
Notes to Financial Statements

Risk Management

The Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Board has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Risk Management – Internal Service Fund

During the September 30, 1998 fiscal year, the Board authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Board finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Board by the contract.

REQUIRED SUPPLEMENTAL INFORMATION

Gratiot County Community Mental Health Services
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual
General Fund
For the year ended September 30, 2005

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
Local	\$280,000	\$280,000	\$496,808	\$216,808
State	8,967,884	8,967,884	9,025,004	\$57,120
Federal	185,746	185,746	187,983	\$2,237
Total revenues and other financing sources	9,433,630	9,433,630	9,709,795	276,165
Expenditures				
Health and Welfare	9,215,285	9,215,285	9,471,004	(255,719)
Capital outlay	43,200	43,200	138,321	(95,121)
Debt service	55,000	55,000	116,857	(61,857)
Total expenditures	9,313,485	9,313,485	9,726,182	(412,697)
Revenues over (under) expenditures	120,145	120,145	(16,387)	(136,532)
Fund balance, beginning of year	2,132,093	2,132,093	2,132,093	-
Fund balance, end of year	\$2,252,238	\$2,252,238	\$2,115,706	(\$136,532)

The Notes to the Financial Statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

Gratiot County Community Mental Health Services
Supporting Schedule of Personnel Costs
For the years ended September 30, 2005 and 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Personnel Costs		
Salaries And Wages	\$3,281,263	\$3,312,842
Fringe Benefits	<u>1,001,230</u>	<u>912,023</u>
Total Personnel Costs	<u><u>\$4,282,493</u></u>	<u><u>\$4,224,865</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Gratiot County Community Mental Health Services
Supporting Schedule of Operating Expenditures
For the years ended September 30, 2005 and 2004

Governmental Fund Types

General Fund

	<u>2005</u>	<u>2004</u>
Operating Expenditures		
Conferences	\$29,711	\$27,893
Contractual services	3,129,609	3,186,819
Dues / subscriptions	9,480	2,571
Indigent hospitalization	247,859	447,254
Institutional cost	228,239	236,013
Insurance	88,188	83,733
Mid-Michigan Industries program	304,638	355,018
Other	30,287	20,523
Printing / publishing	8,176	6,527
Rehabilitation costs	17,545	20,320
Rental	152,368	167,435
Repairs and maintenance	189,394	107,946
Respite care	99,824	90,297
Small equipment purchases	67,764	40,978
Supplies	287,192	206,247
Telephone	93,566	99,486
Travel & transportation	97,258	74,926
Utilities	<u>107,413</u>	<u>111,467</u>
 Total operating expenditures	 <u><u>\$5,188,511</u></u>	 <u><u>\$5,285,453</u></u>

The Notes to the Financial Statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Gratiot County Community Mental Health Services
Alma, Michigan

We have audited the financial statements of the governmental activities and each major fund of Gratiot County Community Mental Health Services (the Board) as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated January 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Board, in a separate letter dated January 10, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 10, 2006



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LOCAL AUDIT & FINANCE DIV.

MANAGEMENT LETTER

Board of Directors
Gratiot County Community Mental Health Services
Alma, Michigan

In planning and performing our audit of the financial statements for Gratiot County Community Mental Health Services for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 10, 2006, on the financial statements of Gratiot County Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 10, 2006

Use Excess Cash to Reduce Debt

During our audit, we noted that the Board was earning between 0.5% and 2.5% rates of return on invested cash. However, we realize that earning a higher rate of interest in these relatively low-interest economic times may be difficult. Therefore, we recommend that management analyze its cash needs and consider applying the excess cash to reducing its debt. The current interest rates on the Board's debt range from 4.75% to 7.8%.

GASB Statement No. 45

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Board consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Board to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.